

April 9, 2018

To: Rep. Dean Urdahl, Chair, Capital Investment Committee
Sen. David Senjem, Chair, Capital Investment Committee
Rep. Jim Knobloch, Chair, Ways & Means Committee
Sen. Julie Rosen, Chair, Finance Committee

From: Commissioner Myron Frans

Subject: Update #2 to the Governor's Proposed 2018 Capital Budget

The purpose of this letter is to officially transmit the capital investment updates that were included in the Governor's 2018 Supplemental Budget Recommendations on March 16, 2018. As described in Supplemental Budget materials, the Governor recommends \$23.423 million from the general fund and \$7.2 million from the trunk highway fund to cover the projects described below. The impact of these changes and revised debt service assumptions are shown in the table below. Relative to the February forecast, the Governor's updated capital budget recommendations increase general fund spending by \$34.452 million in FY 2019, \$29.913 million in FY 2020, and \$52.822 million in FY 2021.

Department of Administration – Capitol Complex Security Upgrades

The Governor recommends \$9.135 million from the general fund in FY 2019 for upgrades to physical security associated with the Andersen, Freeman, Retirement Systems, and Transportation Buildings. Improvements may include installation of bollards, blast protection, infrastructure security screen walls, door access controls, emergency call stations, security kiosks, locking devices, and traffic control.

Department of Administration – Building Efficiency Loan Fund

The Governor recommends \$3 million from the general fund in FY 2019 to establish a building efficiency revolving loan fund to improve energy efficiency in state facilities. As energy efficiency projects result in operational savings, agencies will make loan repayments that will replenish the fund, allowing the Department to continue to distribute resources.

Departments of Agriculture and Health – MDA/MDH Laboratory Building Infrastructure Improvements and Renovation

The Governor recommends \$720 thousand from the general fund in FY 2019 for relocation expenses associated with the capital improvements to the MDH/MDA Laboratory Building.

Department of Health – Lab Equipment

The Governor recommends \$2.327 million from the general fund in FY 2019 to purchase equipment for the agency's Public Health Lab that has reached the end of its useful life and is not bond-eligible. New, more technologically advanced pieces of equipment will allow the agency to conduct testing in the areas of environmental contaminants, foodborne illness, infectious disease, and newborn screening.

Department of Agriculture – Lab Equipment

The Governor recommends \$1.041 million from the general fund in FY 2019 to replace lab equipment in the Department of Agriculture's laboratory. The existing equipment, which is used for food safety and agricultural chemical and plant disease sample testing, has reached the end of its useful life and is not bond-eligible.

Department of Transportation – State Plane

The Governor recommends \$1.8 million from the general fund in FY 2019 and \$7.2 million from the trunk highway fund for the acquisition of two aircraft. Existing state aircraft, which would be replaced under this recommendation, are aging and facing substantial maintenance costs.

Department of Transportation – Highway 53

The Governor recommends \$5.4 million from the general fund for a grant to the city of Virginia to reimburse to repay loans the city incurred for costs related to utility relocation for the Highway 53 project.

General Fund Debt Service Costs (Revised)

Since the Governor's 2018 capital budget revision on February 16, 2018, Minnesota Management and Budget has recalculated the cost of the Governor's recommendations to include several factors, which are shown in the following table. First, we repriced the Governor's capital budget recommendations based on February forecast assumptions. February forecast debt service costs are slightly lower compared to November. Second, we adjusted debt service on Housing Infrastructure Bonds for the Housing Finance Agency based on the expected timing of bond sales. Debt service was originally assumed to be \$8 million per year, starting in FY 2019. With the timing change, debt service will begin in FY 2021 at \$4 million, and be ongoing at \$8 million per year starting in FY 2022. Third, we assume the appropriation bonds for the Clinical Research Facility project at the University of Minnesota will be taxable. The change from tax-exempt to taxable bonds increases the cost of appropriation bond debt service from \$716 thousand per year to \$749 thousand per year. To show the full impact to the general fund, we have also included the cost of the Governor's general fund cash capital projects. Collectively, these changes result in the following cost to the general fund relative to the February forecast:

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March 16, 2018 Update to Governor's 2018 Capital Budget Recommendation

(in thousands)

	FY 2018	FY 2019	FY 2020	FY 2021
<i>February 16, 2018 Update</i>	<i>0</i>	<i>19,201</i>	<i>39,535</i>	<i>58,023</i>
February Forecast Repricing	0	(205)	(1,654)	(1,234)
Housing Finance Agency Debt Service Adjustment	0	(8,000)	(8,000)	(4,000)
University of MN Taxable Appropriation Bonds	0	33	33	33
General Fund Cash Projects	0	23,423	0	0
<i>Governor's Revised Capital Budget</i>	<i>0</i>	<i>34,452</i>	<i>29,913</i>	<i>52,822</i>

Should you have any questions on this revised recommendation, please contact MMB's Capital Budget Coordinator at Elizabeth.Connor@state.mn.us or 651-201-8041.

cc: Rep. Kurt Daudt, Speaker of the House
Sen. Paul Gazelka, Majority Leader
Rep. Melissa Hortman, Minority Leader
Sen. Tom Bakk, Minority Leader
Rep. Alice Hausman, Ranking Minority Member, Capital Investment
Sen. Sandra Pappas, Ranking Minority Member, Capital Investment
Sen. Scott Dibble, Advisory Committee for Capitol Area Security
Sen. Warren Limmer, Advisory Committee for Capitol Area Security
Rep. Jim Nash, Advisory Committee for Capitol Area Security
Rep. Debra Hilstrom, Advisory Committee for Capitol Area Security
Bill Marx, Chief Fiscal Analyst, House
Eric Nauman, Lead Fiscal Analyst, Senate
Andy Lee, Capital Investment Fiscal Analyst, House
Casey Muhm, Capital Investment Fiscal Analyst, Senate
Erin Campbell, Deputy Chief of Staff, Governor's Office
Brennan Furness, Senior Policy Advisor, Governor's Office
Margaret Kelly, Assistant Commissioner, Minnesota Management & Budget
Alisha Cowell, Executive Budget Coordinator, Minnesota Management & Budget
Liz Connor, Capital Budget Coordinator, Minnesota Management & Budget

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